RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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July 29, 1981 **LETTER 814**

July 17, DJIA 959.90; PTI 1486; A-D Ratio –18.44
July 24, DJIA 936.74; PTI 1474; A-D Ratio –19.48

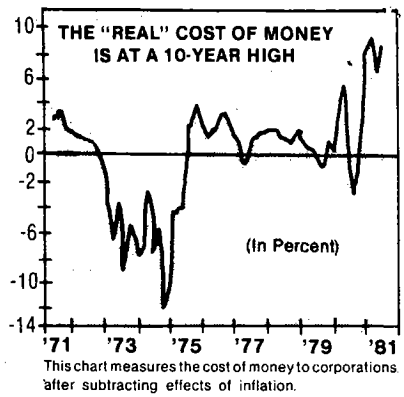
THE PICTURE: Question: In the last Letter you stated that the Dow Theory had given a bear market signal. You also stated that your Primary Trend Index (PTI) had broken its secondary trendline but that it had NOT yet fallen below its major trendline. What can we conclude from this?

Answer: In the last Letter I recommended full T-bill positions – in other words, positions of utmost safety. I did this because according to Dow Theory we are now in a confirmed primary bear market. The PTI at the lows of July 6,7, and 8 held at 1465. This low was just 8 points above the main rising trendline. A short and rather feeble rally followed, and by July 23 the PTI had fallen to 1468, at which point it was exactly on the rising trendline (see page 2 chart). This is a difficult time to write this Letter, and I will have to include the latest developments on page 6 of this report.

Question: All right, so we have a primary bear market according to Dow Theory, and we have a PTI that is again bouncing off on its main rising trendline. What next?

Answer: Let's drop the PTI for a moment. I've followed and written about the Dow Theory for a quarter of a century. In my experience, about 75% of all Dow Theory signals have (in retrospect) proved to be valid. In other words, about 3 out of

FRONT PAGE COMMENTS: All year long we have been subjected to a parade of bankers, economists and money experts chattering about "lower interest rates." And all year these well-meaning gentlemen have been wrong. The surprise of 1981 is obviously the Fed's resolve to keep the pressure on inflation via "tight" money. Further pressure on the money markets has come from widespread illiquidity plus the latest phenomenon – corporate takeover fever (which has resulted in the issuance of $25 billion in additional credits).

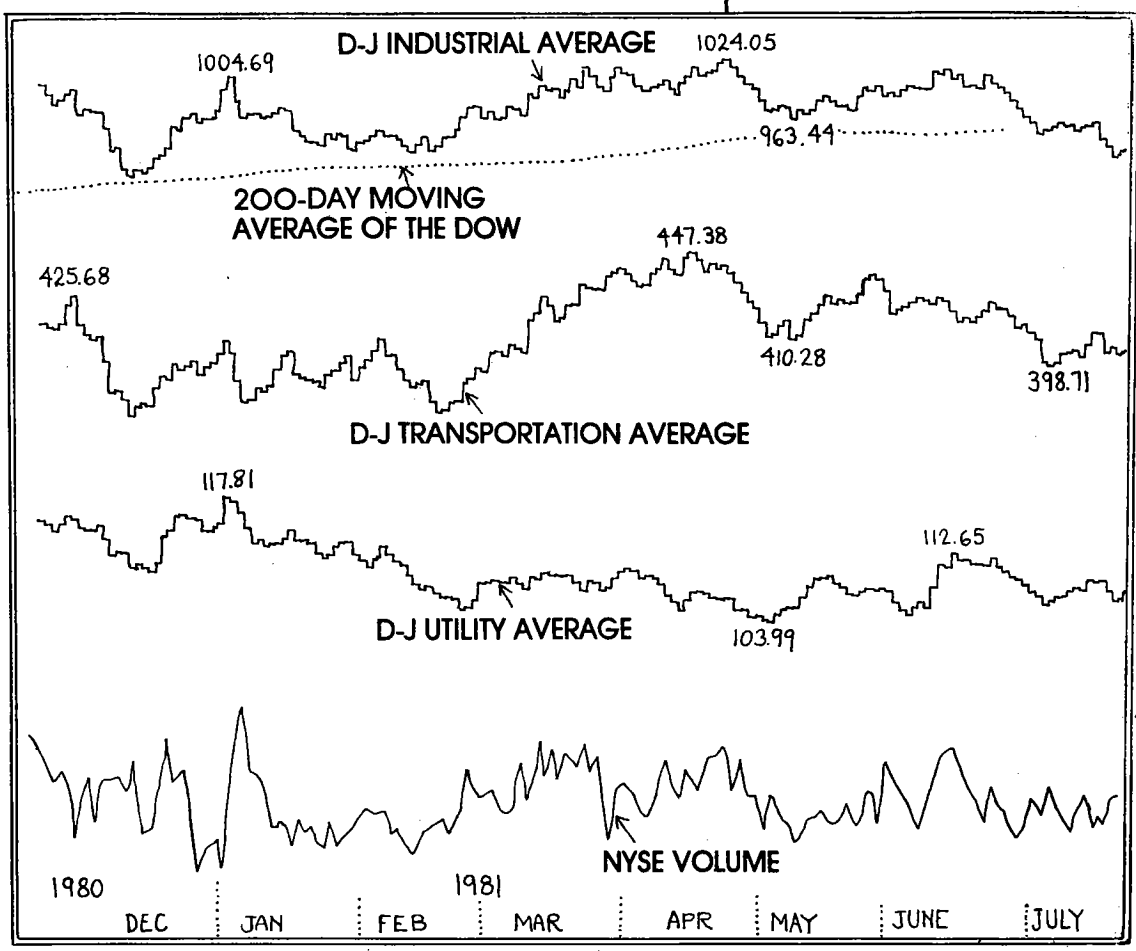


This chart measures the cost of money to corporations after subtracting effects of inflation.

With inflation down to 8% and the cost of money still high, we have a situation which I have been predicting for some time – fat real returns to those with cash assets. "Fat real returns" is an understatement – the fact is (as you can see from this *WSJ* chart) that the real return on your money is now at the highest level in over a decade.

Thus the man with cash is now in the driver's seat. The era of low-cost financing, bargain loans and dirt-cheap mortgages is over. The borrower is now feeling the pressure, while the lender (the poor battered lender) is King.

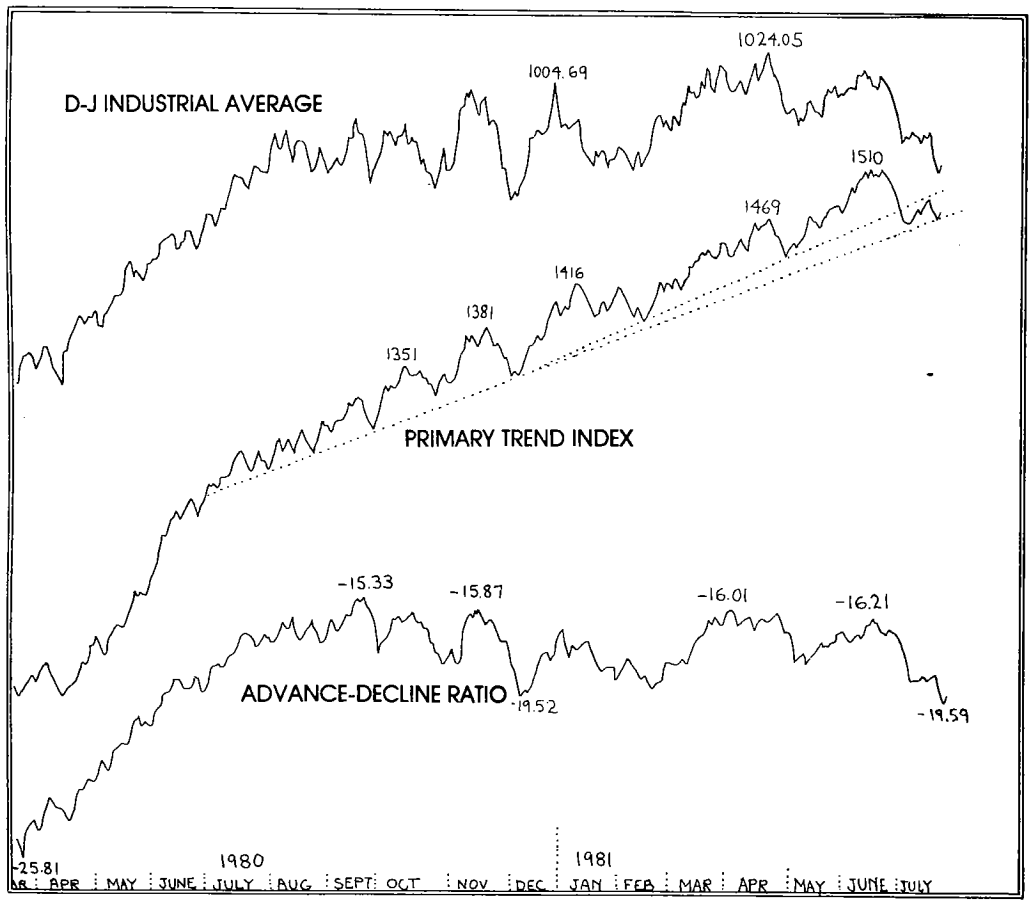
With a primary bear market now in force, the risk/reward in holding T-bills instead of stocks becomes overwhelming. The average investor cares for neither risk/reward concepts nor safety. The bear knows this and he bides his time. Hibernation time for the bear is almost over, and he is looking forward to the feast.



4 Dow Theory signals have worked to the advantage of the Theory's followers. I believe the July 2 primary bear signal was both authoritative and valid – and one that should be acted upon. I told subscribers to move to a position of 100% safety, and I am obviously still of that opinion.

I could have waited for my PTI to confirm the Dow Theory bear signal before turning bearish. I thought long and hard about that, but I concluded that *preservation of capital* overrides all other consideration. If the PTI continues to hold, or if the PTI embarks on an extended new advance (and if the Dow Theory signal proves to be false), then we can always move back into the market. But missed profits are one thing, and loss of capital is another. The first is a shame, the second is a disaster.

Question: In other words, the market is now pitting the Dow Theory against your PTI. If the PTI doesn't break down over say the next few months or so, the Dow Theory bear signal will have been proved wrong.



Answer: Look, I'm not interested in disproving the Dow Theory. In this business you work with what you've got, and you do your best with your most reliable, time-tested tools. I took into consideration the poor undertone of this market, the sagging Dow A-D line, the lagging breadth in the general market, the dearth of daily new highs, the frothy speculation in takeover candidates, the high interest rates, the poor action of the moving averages of the Dow – and I concluded that discretion was the better part of valor.

Question: Did the high yields on debt instruments influence you in acting on the Dow Theory bear signal?

Answer: Yes, definitely; I reasoned, why sit in a market that is bearish under Dow Theory when I can get 15% and more on my money in T-bills or in a money market fund dealing in Treasuries? The risk/reward was definitely in favor of T-bills, and that made me even more prone to heed the Dow Theory bear signal. Look, I'm now about 95% in T-bills. How can I tell my subscribers to do something else?

Question: Russell, what's your overview of this market? What's your opinion on what's happening in the very broad sense?

Answer: To me, the most significant thing about this market is the strange, really unprecedented series of *divergences.* We have a dramatic divergence between price and breadth. And we even have a stark divergence in the various averages. For instance, the major composite averages such as the S&P 500 and the NYSE Index recorded their highs last November 28. And they have never rallied above those peaks. Yet the Dow recorded its high of 1024.05 on April 27. The D-J Transports hit a high of 447.38 on April 20. And the D-J Utility Average recorded a high of 112.65 on June 15. A strange, disjointed, unconfirmed series.

If the S&P 500 and the NYSE Index have been diverging and looking poor, the A-D ratio for the NYSE has been doing even worse. On July 23 (see page 2 chart) the A-D ratio broke to minus 19.59. This took the ratio fractionally below its December 11, 1980 low of minus 19.52. In so doing the A-D ratio dropped back to its level of June, 1980 and *wiped out all the gains of the past 13 months.* That means that on average, anyone who had purchased a cross-section of stocks over the past year is now showing a loss. This is the way the bear works – he keeps you hoping (and buying), and suddenly one day you wake to find your portfolio is showing net losses.

The A-D ratio for the 30 Dow Industrial stocks looks even worse than the NYSE A-D. I showed the chart in the last Letter. On July 22 the Dow A-D dropped to 325, a level which was last seen when the Dow was in the low 800's. If the Dow is to close the gap with its own A-D line (and this is the usual sequence), we can expect the market to break considerably lower.

Over on the Amex the A-D for that exchange has now broken below its April, 1980 low, thereby placing the whole Amex list in jeopardy. Frankly, with the various A-D indices now in pronounced downtrends, it is almost impossible for investors to beat these markets, and I don't care if you're an expert stockpicker or not. When the various advance-decline lines head down in a persistent, relentless fashion, it's telling us that "the water is running out of the market bathtub."

Question: Russell, let me pin you down to an opinion or a guess if you want to call it that. What's your best guess as to what's coming up?

Answer: Well, with the Dow Theory bear signal and steadily sagging A-D indices, my thinking is that there's real trouble building

up ahead. The actual timing of the trouble will probably coincide with a decisively bearish PTI. If I had to guess, I'd say that we're going to see the trouble hit the market this fall -- probably in the September-October-November period.

Strictly on intuition, I get the feeling that this bear market could be extended and frustrating. Certainly it's been a long and frustrating top so far. I consider the top for this market to have started last August, which means that we have a top of almost a year in length. This huge top will be completed and the bear market on in earnest when the S&P 500 breaks below 125 and the NYSE Index breaks below 72. That hasn't even occurred yet!

There's another rather discomforting factor about this situation. If you look through any chart book you'll see that many stocks have already suffered severe declines. Many have lost 25% and more of their value. And the top hasn't even been completed yet. It makes me wonder what Wall Steet will look like if this market breaks and starts heading down in earnest.

Question: What, in your opinion, is the meaning of all these corporate takeover attempts that are occurring at this time? Isn't this a hopeful indication?

Answer: This is a study in psychology. No one knows why the financial community suddenly becomes hysterical about one concept or another. Some months ago everyone wanted to swallow up the brokerage houses (when those stocks were at their highs). Now huge corporations are borrowing billions of dollars at near-record high interest rates in order to buy up various energy companies. This excitement provides a perfect smoke screen for the bear to hide behind. As far as I'm concerned, DuPont, Mobil and the rest of the players should be building up cash reserves instead of borrowing heavily to buy out other giants. As we move into a potential liquidity crisis, the last thing I would want would be billions of dollars of new debt and the burden of servicing that debt.

Question: Your PTI is again "sitting on the edge" and it is true, as you have so often stated, that no bear market is going to develop in earnest until the PTI decisively breaks down. Again and again we've been confounded by the PTI and its accuracy in clarifying what's really going on in this market. Why do you think the PTI has worked so well during the very difficult markets of recent years?

Answer: It's worked extraordinarily well because it's based on indicators that, when taken together as a unit, cannot be fooled or "faked out." These are mostly "action of the market" indicators.

Question: Russell, would you explain the difference between "action of the market" and "character of the market" and "psychology of the market" methods in technical analysis.

Answer: The action of the market deals with the movement of the various averages plus the movement of the various advance-decline indices. Action of the market includes volume studies, low-priced stock index studies, moving average studies. In other words, this study encompasses the way the different segments of the market actually move.

Charactor of the market includes the internal action such as the high-low studies, the most-active studies, the momentum studies, the various stock group studies, the price-volume studies, the on-balance-volume studies. The character of the market deals with the sub-surface phenomena which lie behind the market action.

Psychology of the market studies seek to measure whether the market is over-bought or over-sold, which is another way of saying, "Has the upside or downside of the market been fully expressed?" For instance, when everybody is bullish then the rally is probably over since who is left to buy? This kind of thinking is what the psychology of the market studies seek to measure. Examples of these studies are the percentage of market services that are bullish or bearish, the odd lot studies, the member trading studies and the short interest studies.

Question: Which of these market catagories do you like best?

Answer: I have found the action of themarket studies to be most useful and most reliable. My second choice would be character of the market studies. I find psychology of the market studies interesting, sometimes useful, but least reliable of the three. I also find psychology of the market studies to be the most difficult to interpret.

Question: Which of these groups is used in your Primary Trend Index (PTI)?

Answer: The PTI uses six action of the market components and two character of the market components -- all computed on a daily closing basis. Each of these 8 components is given the same weighting in the final PTI tabulation. But I believe it is the heavy representation of the action of the market items which gives the PTI its accuracy. No amount of manipulation, no amount of erratic or unorthodox market action can "fool" the majority of these 8 components over any length of time. That is why I say that the market cannot rise while the PTI is in a declining trend, and the market cannot fall apart while the PTI is in a bullish trend. My basic task with the PTI is determining its overall trend -- and the point at which that trend is reversed.

Question: You've been advocating 91-day Treasury bills as the ideal place for money at this time. What about the money market funds?

Answer: The great majority of money market funds hold assets issued by the banking system such as C/D's, bankers acceptances, etc. At this point I far prefer to deal with funds that hold only US Government obligations. Three such funds are:

(1) *Capital Preservation*, 755 Page Mill Rd., Palo Alto, CA 94306 (800-982-6150 in CA and 800-227-8380 outside CA). This fund deals strictly with T-bills. *Capital Preservation II* deals in Government repos and is also on my "good" list. Call them for information.

(2) *Fund for Government Investors*, 1735 K St., NW Washington DC 20006 (call collect 202-861-1810). This fund holds T-bills, notes, bonds, and Government agency paper. Current yield is 17% and average maturity is 17 days.

(3) *Merrill Lynch Gov't Fund*, 125 High St., Boston, MA 02110 (800-225-1576). This fund holds T-bills and T-notes, currently yields 16.1% and has average maturities of 10 days.

Placing money in these funds saves you the trouble of rolling over your T-bills and I believe you can write checks against your money in all of these funds. Most funds now have facilities so that you can wire funds to and from your bank (there is a charge). In dealing with large sums, the savings of a day or so can involve the retention of many dollars in interest so check on bank wire service.

MONEY: There are those who say that if the Federal deficits continue to spiral up and out of sight, why all we have to do is monetize the debt. Well I have news for you, the money markets have become very sophisticated. For instance, when on Friday (July 17) it was announced after the close that the money supply had jumped $6.9 billion, the money markets took that news very hard. In fact, you might say the money market crashed on Monday, July 20, and in proof I include this series of quotes from the July 20 Treasury list that shows T-bonds down over three points ($30 per $1000) in many cases.

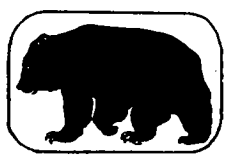
8.75 Aug	1994				
10.13 Nov	1994		77.6	[illegible]	
3.00 Feb	1995		83.16	84.16– .20	
10.50 Feb	1995		78.14	78.22–1.20	14.06
10.38 May	1995		77.10	77.18–1.26	14.11
12.63 May	1995		91.5	91.13–2.7	14.05
11.50 Nov	1995		83.16	83.24–2.10	14.18
7.00 May	1993-98		59	60 –2.4	12.87
3.50 Nov	1998		84.10	85.10– .8	4.75
8.50 May	1994-99		65.12	66.12–2.23	13.54
7.88 Feb	1995-00		60.28	61.12–1.28	13.54
8.38 Aug	1995-00		63.30	64.14–1.26	13.66
11.75 Feb	2001		84.16	84.24–2.14	14.05
13.13 May	2001		92.22	92.30–3.10	14.20
8.00 Aug	1996-01		61.28	62.12–1.24	13.47
13.38 Aug	2001		94.14	94.22–3.4	14.17
8.25 May	2000-05		62.8	62.24–2.22	13.52
7.63 Feb	2002-07		59.8	59.24–2.24	13.12
7.88 Nov	2002-07		60.20	61.4 –2.23	13.18
8.38 Aug	2003-08		63.2	63.18–2.30	13.41
8.75 Nov	2003-08		63.2	63.10–5.4	13.60
9.13 May	2004-09		67.16	67.20–3.4	13.66
10.38 Nov	2004-09		75.10	75.18–3.24	13.83
11.75 Feb	2005-10		85.8	85.16–3.10	13.80
10.00 May	2005-10		73.22	73.30–3.2	13.63
12.75 Nov	2005-10		92.10	992.18–3.8	13.80
13.88 May	2006-11		100.2	100.10–3.14	13.83

n– Treasury notes.
Bid and asked prices quoted in dollars and thirty seconds. Subject to Federal taxes but not to State income taxes.

Therefore, I submit that if and when the Fed decides to inflate us out of a recession or depression, the debt markets will collapse and thereby simply intensify any recession. In fact, I would say that a deliberate inflation policy by the Fed would result in more money lost in bonds and mortgages than can be created by monetization of the debt!

At any rate, despite the almost unaminous predictions of our money experts, interest rates have moved up to high levels again, while the bond market is once more flirting with its lows.

INVESTMENT POSITION: The only change here is this: I redrew the bear to show his whole body rather than just his head. Maybe this symbolizes my bet that the full bear market will reveal itself before this year is out (so far the selling has tended to be polite). Subscribers should now be in 91-day Treasury bills, relaxed, poised and reading the financial news with non-stressful interest.



The following is very important, and I want my subscribers to mark it well. I don't think I've ever seen a primary bear market signal (under Dow Theory) that received so LITTLE PUBLICITY. There is literally no talk of "a bear market" in the advisory services, the magazines or the newspapers. This almost total *refusal* to recognize or accept a Dow Theory primary bear market signal has, I believe, ominous implications. Before it is over, the bear will demand recognition! And he'll do it through liquidation and falling prices.

THOUGHTS: I receive dozens of letters and phone calls every week from investors, stock traders, commodity traders amateur crap-shooters, fund managers, corporate officers, you name it. Many of these people have problems with their personal investments, and the number and depth of these problems often causes me to shake my head in sympathy and disbelief.

But one good thing comes out of all these letters and calls, and it is that I have an opportunity to see where people go right, and where they go wrong in their money and market operations. Following are a few of my thoughts.

(1) The average person really has little grasp of the basic principles of capital accumulation. In other words, he doesn't know how to make money. The person has some vague idea of buying this or jumping in and out there or grabbing some stock that his broker promised him "will double." But there's no overall plan, there's no consideration of risk/reward, there's no understanding of the why's and how's of handling money. As a result, the average individual's record is a hodge-podge of good and (mostly) bad moves, the net result being a highly unsatisfactory performance.

(2) I was recently asked to discuss the best piece of investment advice that I, personally, had ever received. Here it is: it was given by the retiring Financial Editor of the old *New York Herald Tribune.* The Editor stated that most young people make a basic financial mistake. They marry, and immediately they go into heavy debt by buying a house, a car, a washer-dryer and all the other "necessary" paraphernalia. This is exactly OPPOSITE to what they should do, he said. The Editor then stated that the young people have TIME on their side. Therefore, instead of going into debt they should SAVE and allow their savings to work for them by COMPOUNDING through time. In this way, they can build a fortune during the 30 or 40 years that lie ahead of them. But going into debt early, said the Editor, almost always means staying in debt while using your available incomes simply to pay off creditors. Debt makes you a slave while saving and assets make you the master of your financial fate. This was the BEST advice I've ever received anywhere. I thoroughly believed it at the time, and I have always operated on this basis. Consequently, I have never built up any debt, and I never owed anyone anything.

(3) What are the best ways to make money? Here are my observations. The single best, safest and surest way to make money is to compound your savings at high interest rates (which you can certainly get today) over a period of years. This is also the dullest way to make money, and that (unfortunately) is why so very few people do it.

The next best method of making money (and this can obviously be combined with the compounding method) is to invest in harmony with the great primary trend of the market. This method obviously requires a knowledge of the direction of the primary trend (and this is the reason I originally became interested in the Dow Theory and other market trend techniques). The best (and by far the surest) method of investing in harmony with the primary trend is via mutual funds (open or closed ended). Almost any fund will tend to move with the major trend of the market. A second method is for you to pick your own individual stocks during a primary bull market. This involves much work, skill, intelligence and luck, and the method is less sure than the fund method.

A third way to make money (although this method differs from the first two in that not everyone can do it) is to start your own business. The critical positive factors in running your own business are (a) outstanding expertise in a particular field, (b) knowledge of the markets and the competition in your field, (c) an understanding of the "numbers" in your field (the fact is that certain businesses are just not very profitable, regardless of how good you are in that area). Perhaps the best advice here is that old but true adage, "If you want to make a fortune – find a need and fill it." Most people never really find a need, and most that do don't have the ability to fill that need.

(4) After tax money is hard to accumulate, and it should be respected. If an individual has (makes, accumulates, inherits) $200,000 or more, he has enough money under today's high interest rates to live modestly ($200,000 at 14% yields $28,000 per year when invested in Treasury bills). This sets off "Russell's Prudent Person Rule," which runs as follows: If an individual has enough capital so that he can live on the interest when that capital is conservatively invested, he should think three times about speculating–and even then he should only speculate with 15% or less of his money."

The better way for the "$200,000 or over" person to speculate is with part of that $28,000 which comes from income on his investment. Thus, I am trying to stress the thesis that once "you have it made" with savings of $200,000or more, you have less "right" to speculate than say the person who only has $10,000. The person who has only $10,000 can rebuild his capital if he loses say half of it. If you lose half of your $200,000 you have lost half a good income, and the odds are that you will never re-accumulate your nest-egg again.

NOTES & QUOTES: It's becoming obvious that the Reagan Administration (with Fed participation) is ready to take a "short" recession in an attempt to bring down the inflation rate. My guess is that they are thinking like this: "We'll squeeze this economy into late fall or into 1982, then ease up some during 1982 and into 1983. Then as we move into the 1984 election period we'll have the best of two worlds, low inflation and a rising economy." I have only one comment: it's a good plan, but remember that I've been saying that with $5.8 trillion in debt hanging over our heads, the US must "Inflate or die." Rising inflation has been "servicing" the US debt. If the inflation rate turns into deflation, the debt will become unmanageable.

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Just got a note from Myron Kaller, who heads the largest philatelic (stamp) portfolio-building firm in the world. Myron tells me that quality stamps are selling for premiums over catalogue prices while average to substandard material is in a sloppy to weaker market. The Kaller firm sees a much more active stamp market developing. Myron says pension and trust money is now entering the scene and computerization is beginning to take hold. As for liquidity, Kaller writes there is at least one auction (often more) every day somewhere in the world. I am a long-time stamp collector, and I've been bidding at auction for a few years – fun and often profitable. *DTL* readers can obtain several of Kaller's Bulletins by writing to *Myron Kaller Assoc.*, Barclay's Bank Building, 333 N. B'way, Jericho, NY 11753.

Speaking of collectibles, this is *Saloman Bros.* list of rates of return on 16 major items. Over a 10 year period, oil comes out number 1. Over a 5-year period US stamps are number 1.

Table 1. Compound Annual Rates of Return

	10 Years	Rank	5 Years	Rank	1 Year	Rank
Oil	30.8%	1	20.9%	5	14.3%	6
Gold	28.0	2	30.7	3	-13.9	14
Oriental Carpets	27.3	3	20.9	6	-0.2	11
U.S. Coins	27.1	4	29.7	4	-8.0	12
U.S. Stamps	23.5	5	32.9	1	18.0	4
Chinese Ceramics	22.9	6	30.7	2	36.5	1
Silver	21.5	7	20.1	7	-26.6	16
Rare Books	16.8	8	13.8	11	18.0	5
Old Masters	15.4	9	16.8	9	22.9	3
Farmland	14.6	10	14.8	10	9.7	8
Diamonds	14.5	11	16.9	8	0.0	10
Housing	10.3	12	11.6	12	8.1	9
CPI	8.3	13	9.7	14	10.0	7
Stocks	5.8	14	9.8	13	25.3	2
Foreign Exchange	5.3	15	3.1	15	-17.3	15
Bonds	3.8	16	1.1	16	-9.6	13

[a] All returns are for the period ending June 1, 1981 based on latest available data

* *

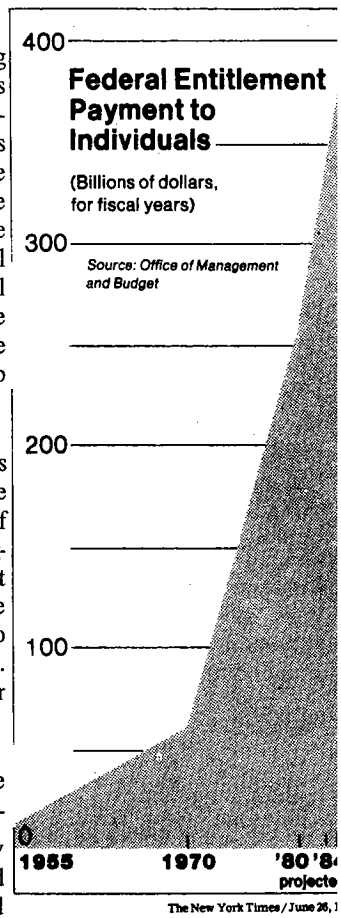
Sign of the Times Dept: The trendiest new item in LA is the new Beverly Hills Gun Club. For $250 a year and $15 monthly, you can join the club, which is located in a 20,000 square foot warehouse. The club is expected to be both a serious practice center and a hangout for gun lovers and the protection-minded in the LA area (two more clubs are on the drawing boards). In all seriousness, I expect gun clubs to mushroom across the nation during the next five years.

* *

I've talked repeatedly about the fortune building properties of compound interest. Now try to absorb this one. Interest rates (short term) are around 15 to 17%. If you put away $1,000 at 15% interest, by the fifth year you will be getting more in interest ($1,011) than your yearly contribution of $1,000!! At $1,000 a year at 15%, your total amount saved at the end of the fifth year will be $7,753.

* *

The Democrats are fond of saying that "Reagan is reversing 50 years social progress under the Democrats." Some of that social progress is pictured on this chart from the *New York Times.* Now some of the more conservative Democrats are having second thoughts about all that progress. Said Rep. Phil Gramm of Texas, recently, "We can stick a finger in the dike of the entitlements before they blow up in our faces."



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Harry Schultz has two pet peeves (hates would be more like it). One is the poor ("dangerous") design of today's airplanes, the other is cigarette smoking. I have two pet peeves as well. The first is the amount of salt that is added to literally everything we eat today. The other is the amount of sugar that is added to everything.

I firmly believe that these large amounts of sugar and salt are injurious to our health, and in my own life I try to cut the salt and sugar to a minimum. I NEVER add salt and sugar to anything, and when eating out I always tell the waiter to hold salt and sugar to a minimum or eliminate it if possible. Project: next time you go into a supermarket, read the ingredient labels on the can or package (ingredients are listed in order of their amount, with the largest amount heading the list). You'll be amazed to see that almost every packaged product is loaded with sugar and salt. Remedy: buy fresh vegetables and fruit and the new Pritikin no-salt, no-sugar, no-oil bread. For breakfast cereals, only Shredded wheat and Grape Nuts are free of sugar and salt, and I have one or the other with no-fat milk and a sliced banana every morning. By the way, don't confuse low-fat milk with non-fat milk. Low fat milk has plenty of butter fat, non fat milk has none.

* *

Evidently, nations aren't the only ones to run deficits. Now the Vatican announces that they will have a $25.6 million deficit for the year. The Vatican has 3,000 employees with salaries running from $500 to $1000 a month. The Pope, however, receives no salary and receives only contributions.

* *

One in 4 Los Angeles residents says he owns guns and, of that figure, 30% said they purchased the guns within the last year.

—Los Angeles Times Survey February, 1981

Last January the *WSJ* polled 20 senior commodity experts on their best bets for price appreciation. Their top four were Treasury bonds, corn, soybeans, cattle. They were wrong on all four. In a new poll, the experts pick the following: buy Treasury bonds, buy copper, sell gold, buy Treasury bills. They could well be wrong again.

* *

Signs of the Times Dept: There are 5,800 unsold new houses in San Diego County, highest level in history. . . . Delinquencies on home loans have climbed to the highest level on record with 5.3% of all loans now delinquent. . .

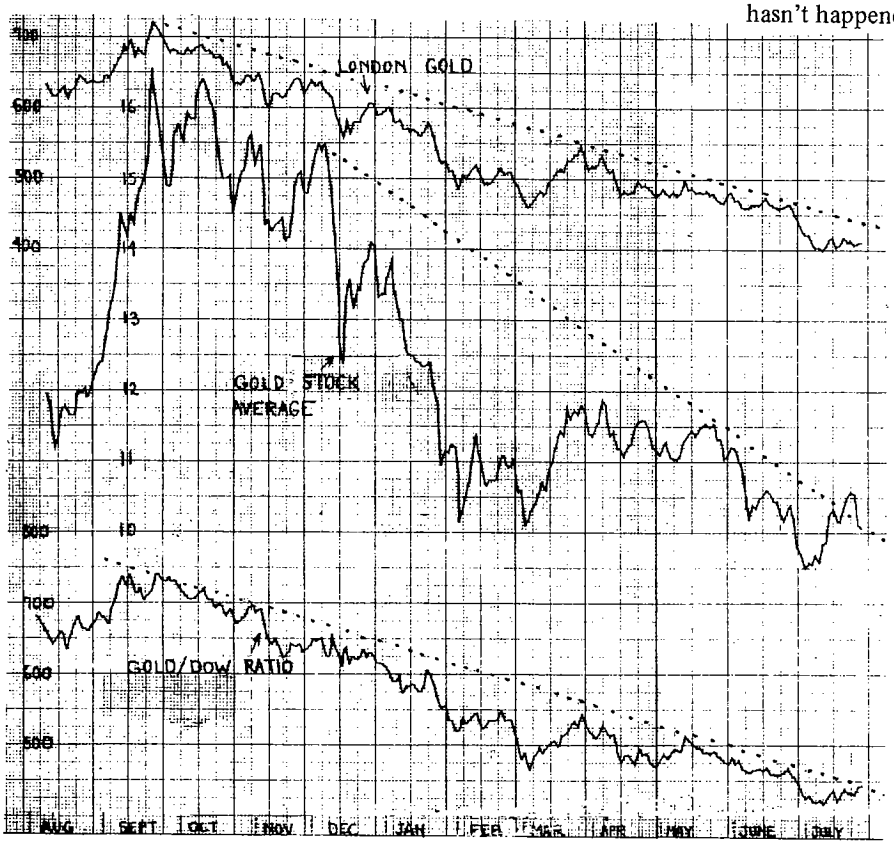
Gold Reserves — End of May 1981
(Valued at July 17, 1981)

	Millions of Ounces	Billions of Dollars	As a Percentage of Total Reserves	Percentage Change in Total Reserves at Market Value Due to Change in Price of Gold*	As a Percentage of M1
United States	264.2	$109.5	89%	−48%	27%
West Germany	95.2	39.5	52	−35	31
Switzerland	83.3	34.5	82	−46	83
France	81.9	34.0	61	−39	23
Italy	66.7	27.7	70	−42	16
Netherlands	43.9	18.2	73	−43	59
Belgium	34.2	14.2	74	−44	55
Japan	24.2	10.0	33	−26	3
Canada	20.9	8.7	84	−47	30
Britain	18.8	7.8	37	−30	10
Sweden	6.1	2.5	45	−33	14e
Total	739.4	306.6			

* The change in the value of gold is the difference between its peak price of $850 per ounce on January 21, 1980, and its current (July 17, 1981) price of $414.63 per ounce.

GOLD: What nobody is talking about is how the drop in the price of gold from the January 21 peak of 850 an ounce to the recent low near 400 has affected the monetary reserves of the Western world. Every nation's reserves consist of gold and foreign currencies. This tabulation by *Saloman Bros.* shows what has happened since January, 1981. Note that the gold drop has reduced US reserves by almost half, Japan by 26%. The average drop in European reserves was almost 40%. Just as the major drop in the price of gold is a harbinger of deflation, the drop in world reserves (caused by the slide in gold) is deflationary – the more so since the gold bear market represents an actual loss in each nation's total wealth.

Turning to my daily gold chart, note that London gold is "going dead" in the area just above 400. This is a good sign for gold, as there is nothing more conducive to forming a bottom than "deadness and bearishness" all wrapped into one.



The gold stock average, in the meantime, is still bouncing around above and below the trendline as seen on the chart. I am watching to see whether this Average can hold persistently above the 9.50 area, regardless of what gold bullion does. The average cost of production in S. Africa is now $263, so the mines there are still profitable, at least the lower cost mines are. Nevertheless, S. African wages are going up rapidly, and at $400 dollar gold some of the higher-cost mines will be running into red ink.

The relationship of gold to the Dow is important, and the chart shows the gold/Dow RATIO sinking over a period of 11 months. It would be a major plus for gold if this ratio bottomed and began rising above an ascending trendline. That has not happened yet.

The 5-week moving average (MA) for gold is now 417, the 13-week MA is 445, and the long-term or 50-week MA is 509. Thus on this study the first bullish indication for gold would be a move which would take the metal decisively above 417. That hasn't happened yet either.

There's no sense jumping the gun or "bottom fishing" for gold. We'll go in again AFTER the bottom and after it has gained a bit of upside momentum. But it's always fascinating to watch an item, to wait for indications of a major turn.

LATE NOTES: Well, uncannily, it's happened again! After exactly touching its declining trendline, the PTI bounced up 6 points on July 24, and it would seem that another market rally should get underway. After the close (7/24) it was announced that M-1-B was down $5.9 billion, thereby wiping out the big upward pop of the week before. The way the market scrutinizes the money figures on a week to week basis is almost comical, but that's this year's economic buzz-toy, and it will last until a new buzz-toy makes its appearance.

A subscriber called Friday afternoon and said, "Russell, that PTI is almost eerie the way it calls the turns. If the PTI ever breaks its main trendline, I'm going to mortgage the house and put it all into puts and shorts!"

NEXT MAILING: Aug. 12